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RR RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV
DE RUEHMD #0739/01 1851521
ZNR UUUUU ZZH
R 031521Z JUL 08
FM AMEMBASSY MADRID
TO RUEHC/SECSTATE WASHDC 5041
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHLA/AMCONSUL BARCELONA 3487

UNCLAS SECTION 01 OF 02 MADRID 000739

SIPDIS

STATE FOR EUR/WE AND EEB/IFD/OMA

E.O. 12958: N/A

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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL/AG UPDATE JUNE 30 -
JULY 3

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PRESIDENT ZAPATERO DEFENDS ECONOMIC POLICIES

[1](#)1. (U) President Zapatero argued on July 2 before parliament
that although Spain was confronting economic difficulties,
the economy was well equipped to overcome what he
characterized as the effects of the international slowdown.
Zapatero's comments seemed to gloss over the seriousness of
the housing bust, appeared to be inconsistent with new data
showing that Spain had the second highest unemployment rate
in the EU (9.9 percent in May), higher than average EU
inflation, and second quarter growth of just 0.3 percent.
Opposition Partido Popular leader Mariano Rajoy accused the
President of lying to Spaniards, a theme that was echoed by
other parties' representatives as well during the lengthy
July 2 parliamentary debate. Fears that a recession will
occur are growing. Meanwhile, a recent Cadena Sur opinion
poll shows that the President's popularity rating decreased
by two points to 41 percent while Mariano Rajoy's popularity
increased to 43 percent, making Zapatero less popular than
Rajoy for the first time since Zapatero became President in
[1](#)2004. (ALL MEDIA, 7/3/08)

SOLBES SAYS SPAIN TO GROW AGAIN AT 3 PERCENT A YEAR BY 2010

[1](#)2. (U) Second Vice President and Finance Minister Pedro
Solbes spoke at a EuropaPress breakfast on July 1 about
economic prospects. He said that second quarter growth would
probably be 0.3 percent and that growth for 2008 would be
"somewhat lower" than 2 percent. However, the minister said
he thought that by 2010, Spain would be growing at its
capacity growth rate, which he estimated as 3 percent a year.
Solbes was adamant that the government would not do anything
to shield businesses and consumers from the effects of higher
oil prices. He insisted that economic agents had to modify
their behavior - anything less would just lead to "second
order" inflationary pressures which would be very bad for the
economy. With respect to deeper structural reforms many
economists think are necessary, Solbes had mixed messages.

Labor market reform had to be done through President Zapatero's "social dialogue" - reforms in this area that were not consensual would not stick. Solbes was not opposed to deeper cuts in corporate taxes but only when the budget permitted. He thought the government had done about what it could with respect to relieving the credit crunch for businesses. (Comment: Solbes makes a strong case that the downturn is caused by factors beyond Spain's control, and that there may even be some positive fallout from the "slowdown", the Spanish government's preferred term for describing the current state of the economy. However, it is questionable whether Spain's capacity growth rate really is 3 percent a year. That would be higher than Germany's or France's rates. Clearly though, the Zapatero government is betting that Solbes is right and that Spain will once again enjoy strong growth in time for 2012 parliamentary elections.) (EuropaPress July 2 breakfast)

PSOE AND PP APPROACHES TO DEALING WITH THE ECONOMY REVEALED

¶3. (U) The Zapatero government is offering a fiscal stimulus to the economy on the order of 1 percent in 2008 and 0.8% in 2009 (maybe more for both years despite politically symbolic austerity measures such as capping salaries for high officials). The opposition conservatives say they want to cut spending by 2 percent, although they have not said what they would cut. (El Pais, 6/30/08)

NEW SCIENCE AND INNOVATION MINISTER SAYS SHE WOULD EAT BIOTECH FOODS

¶4. (U) Minister Cristina Garmendia told a leading daily (El Mundo) that she would eat biotech foods. She added that there was a lot of misinformation about biotechnology. (Comment: The departure from the government of the former

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Minister of Environment, Cristina Narbona, a hard-line anti-biotech proponent, the takeover of the Ministry of Environment by former Minister of Agriculture Elena Espinosa (Agriculture and Environment have been merged into a super-ministry), and the Science Minister's pro-biotech stance, bodes well for the future of agricultural biotechnology in Spain.) (El Mundo, 6/29/08)

SPAIN LEADS EU WITH SECOND HIGHEST UNEMPLOYMENT RATE

¶5. (U) According to the EU's statistics agency, Eurostat, Spain's unemployment rate reached 9.9 percent this past May, a large jump from the 8.1 percent Eurostat calculated for May, 2007. As such, Spain was the EU country with the largest increase in its unemployment rate, and the second highest in its actual rate (after Slovakia). The average EU unemployment rate was 6.8 percent. (Comment: Spain's own statistics vary slightly from Eurostat, but nonetheless it is clear that Spain's unemployment level is increasing rapidly primarily because of Spain's housing construction bust. Spain's continued high unemployment is also telling in that it shows that, despite million of workers in "temporary" contracts, more flexible Spanish labor laws should really help alleviate unemployment.) (El Pais, 7/1/08)

SPAIN MOVES TO INCREASE ELECTRICITY AND GAS CONNECTIVITY WITH FRANCE

¶6. (U) During high level meetings in Zaragoza on July 27, President Zapatero and French Foreign Minister Francois Fillon committed to increased electricity and gas connectivity. The two officials agreed to create a company by October 1, 2008 that would take charge of establishing the long awaited cross-border electricity lines. This connection, which has been blocked for several years due to local community concerns, would pave the way for a high-speed train link between the two countries. Spain and France also agreed during the meetings to study the feasibility of a new gas line connection with a capacity of 7 billion cubic

meters/year to be built by 2015. This new gas line would further connect Spain to the rest of Europe, and according to the agreement, would improve "security of supply and trade between the two countries." (EFE, June 28)

SPAIN FURTHEST FROM MEETING KYOTA GOALS DUE TO EMISSIONS FROM MAJOR CITIES

17. (U) In regional data just published by the Ministry of Environment, Rural Development and Marine Affairs, the growth of CO2 emissions in several regions including Madrid, Andalusia, Valencia, Murcia, the Balearics and Canaries have increased more than 75 percent above 1990 levels. Spain's national objective determined by the Kyoto Protocol was to increase emissions by only 15 percent over 1990 levels. As expected, the regions that have experienced the most economic, population and urban growth have generated the largest increases in emissions. For example, since 1990 the region of Madrid has increased its population by 19.5 percent, but its emissions have grown nearly 76 percent. In the article, El Pais says the GOS is responsible and criticized the region of Madrid for making one of the best metro subway networks in Europe "insufficient" due to housing sprawl and the population's reliance on the automobile. In spite of being a leader in the development of renewable energy, the article says Spain remains further away from fulfilling its Kyoto obligation than all other industrialized countries, and says the GOS assumes it will not be able to meet its goal. As a result, Spain will be required to pay more than 3 billion euros in emission quotas and clean energy investments in developing countries. (El Pais, 6/30/08)
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